

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC 1283
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AMEMBASSY TEGUCIGALPA

UNCLAS SAN JOSE 3627

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: (A) STATE 165596, 197406; (B) SAN JOSE 910, 2682 (1974)

1. PER REFTELS (A) FOLLOWING IS STATEMENT ON FOREIGN
INVESTMENT CLIMATE FOR COSTA RICA.

2. COSTA RICA FAVORS AND ENCOURAGES FOREIGN PRIVATE
INVESTMENT WHICH IS, IN TURN, ATTRACTED BY A SERIES OF
FACTORS, INCLUDING A STABLE AND DEMOCRATIC GOVERNMENT,
AN INDEPENDENT LEGAL SYSTEM, A PLEASANT CLIMATE AND A LARGELY
LITERATE AND A READILY TRAINABLE WORK FORCE. THE COSTA
RICAN ECONOMY IS BASED ON PRIVATE ENTERPRISE, AND WHILE THE
PUBLIC SECTOR PLAYS AN IMPORTANT OR EVEN MONOPOLISTIC ROLE
IN SOME AREAS, MOST ECONOMIC ACTIVITY IS CARRIED OUT IN THE
PRIVATE SECTOR.

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3. SINCE COSTA RICA JOINED THE CENTRAL AMERICAN COMMON

MARKET IN THE EARLY SIXTIES, PRIVATE CAPITAL FLOWS INTO THE COUNTRY HAVE BEEN SUBSTANTIAL. MOST OF THIS INVESTMENT, UP UNTIL ABOUT 1970, WAS IN THE CACM-ORIENTED LIGHT MANUFACTURING SECTOR, BUT IT IS STILL OVERSHADOWED BY SUBSTANTIAL FOREIGN HOLDINGS IN AGROBUSINESS, PRIMARILY BANANAS AND CATTLE RAISING. THE COSTA RICAN GOVERNMENT PARTICULARLY ENCOURAGES FOREIGN INVESTMENT IN AREAS LIKE FOOD PROCESSING WHICH USE LOCAL RAW MATERIALS AND CALL FOR A GREATER LOCAL VALUE ADDED. IT IS ALSO INTERESTED IN ATTRACTING LARGE POWER USERS TO HELP IT DEVELOP ITS SIGNIFICANT HYDRO-ELECTRIC POTENTIAL.

4. THE CENTRAL AMERICAN FISCAL INCENTIVES CONVENTION PROVIDES STANDARDIZED INCENTIVES THROUGHOUT THE COMMON MARKET WHICH GRANT PARTIAL OR TOTAL CUSTOMS EXEMPTIONS FOR PLANT AND EQUIPMENT OF CERTAIN NEW INDUSTRIES. COSTA RICAN LAWS ALSO PROVIDE FISCAL INCENTIVES AND CUSTOMS EXEMPTIONS FOR NEW INVESTMENTS IN TOURISM AND THE SERVICES SECTOR AND A SPECIAL INCOME TAX REBATE FOR INVESTMENT IN NON-TRADITIONAL EXPORT INDUSTRIES TIED TO A FORMULA DESIGNED TO ENCOURAGE MAXIMIZATION OF THE VALUE ADDED DOMESTICALLY. OPIC POLITICAL RISK INSURANCE IS AVAILABLE FOR U.S. PRIVATE INVESTORS.

5. THE PUBLIC SECTOR IN COSTA RICA MAINTAINS A MONOPOLY POSITION IN THE AREAS OF INSURANCE AND ENERGY PRODUCTION. THE GOVERNMENT ALSO DOMINATES BANKING, ALTHOUGH PRIVATE BANKS ARE ALLOWED TO OPERATE SUBJECT TO CERTAIN LAWS AND REGULATIONS AND PLAY A SIGNIFICANT ROLE THROUGH FINANCIAL INTERMEDIARIES (FINANCIERAS). THERE HAVE BEEN MOVES ON A CASE-BY-CASE BASIS TOWARD NATIONALIZATION OF FOREIGN INVESTMENT CONSIDERED TO BE OF A "PUBLIC UTILITY" OR "ESSENTIAL RESOURCE" NATURE, COSTA RICA'S ONLY REFINERY WAS PURCHASED AND CONVERTED INTO A GOVERNMENT MONOPOLY IN 1973, AND NATIONALIZATION OF THE PETROLEUM DISTRIBUTION SYSTEM IS TAKING PLACE AS CONTRACT WITH FOREIGN COMPANIES EXPIRE.

6. COSTA RICAN LAWS PROVIDE WORKERS WITH MINIMUM WAGE GUARANTEES AND SOCIAL SECURITY BENEFITS. INDUSTRIES ARE SUBJECT TO A VARIETY OF TAXES DESIGNED TO TRANSFER RESOURCES TO THE POORER SEGMENTS OF COSTA RICAN SOCIETY. THERE HAS BEEN UNCLASSIFIED

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SOME CONCERN WITH THE MULTIPLICITY AND AGGREGATE COST OF THESE TAXES IN RECENT YEARS AND LATELY CONCERN HAS ARISEN OVER A 1975 LAW GIVING THE GOVERNMENT THE AUTHORITY TO CONTROL PRICES AND PROFIT MARGINS IF NECESSARY TO PROTECT CONSUMERS FROM UNFAIR PRACTICES. THE LATTER CONTROL HAS NOT BEEN EXTENSIVELY EXERCISED, HOWEVER, EXCEPT IN THE CASE OF BASIC FOODS WHERE PRICES IMPACT MOST HEAVILY ON THE POORER CLASSES.

7. THE TWO CHIEF ECONOMIC PROBLEMS FACING COSTA RICA AT PRESENT ARE DOMESTIC INFLATION AND A BALANCE OF PAYMENTS DEFICIT. THE GOVERNMENT HAS TAKEN VIGOROUS STEPS TO REMEDY BOTH PROBLEMS, HIRL WHILE INFLATION SEEMS TO BE ABATING SOMEWHAT, SHORT-RUN PROSPECTS FOR THE BALANCE OF PAYMENTS ARE STILL NOT ENCOURAGING. IN THE FALL OF 1974 THE GOVERNMENT INSTITUTED A MECHANISM TO CONTROL CAPITAL MOVEMENTS. THIS IS DESIGNED TO PREVENT PURELY SPECULATIVE OUTFLOWS AND FOREIGN EXCHANGE IS AVAILABLE FOR NORMAL BUSINESS TRANSACTIONS.

8. DESPITE THE GENERALLY FAVORABLE CLIMATE FOR FOREIGN INVESTMENT IN COSTA RICA, THERE HAS BEEN GROWING SENSITIVITY AND SOME RESENTMENT AGAINST LARGE-SCALE FOREIGN OWNERSHIP OF LAND, AND FOREIGN EXPLOITATION AND OWNERSHIP OF OTHER NATURAL RESOURCES. SOME FORM OF REGULATION BY THE COSTA RICAN GOVERNMENT OF LAND INVESTMENT WITHIN THE NEXT YEAR OR TWO SEEMS INEVITABLE. SOME BUSINESSMEN HAVE EXPRESSED CONCERN ABOUT PROPOSED LAWS AND REGULATIONS WHICH WOULD DISCRIMINATE AGAINST FOREIGN PRIVATE ENTERPRISE BECAUSE OF THE ADVERSE EFFECT THIS WOULD HAVE ON NEW INVESTMENT. HOWEVER, NO LAW OR REGULATION OF THIS TYPE HAS BEEN ADOPTED AND PRESIDENT ODUBER, IN A TELEVISED SPEECH TO THE NATION ON AUGUST 19, 1975, CRITICIZED SUCH PROPOSALS AND STRONGLY REAFFIRMED THAT COSTA RICA BOTH NEEDS AND WELCOMES FOREIGN PRIVATE INVESTMENT.

9. U.S. DIRECT INVESTMENT (BOOK VALUE) AT END OF 1974:
TOTAL: 145 MILLION
MINING AND SMELTING: 3 MILLION
PETROLEUM: 18 MILLION
MANUFACTURING: 33 MILLION
OTHER (INCLUDES BANANA COMPANIES \$49 MILLION, FOOD PROCESSING \$15 MILLION, RETAIL TRADE \$2 MILLION, ETC): 66 MILLION
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IN ADDITION TO ABOVE SOME 20 TO 25 MILLION IS INVESTED IN RANCHING AND REAL ESTATE.
SOURCE: EMBASSY ESTIMATES
STATISTICS ON DIRECT INVESTMENT BY ALL COUNTRIES AND DIRECT INVESTMENT BY FOREIGNERS IN U.S. ARE NOT AVAILABLE.
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